

Message Text

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PAGE 01 SAN SA 01681 01 OF 02 302237Z

63

ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 FRB-03 AGR-05 /090 W

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R 302104Z APR 75

FM AMEMBASSY SAN SALVADOR

TO SECSTATE

WASHDC 7983

INFO AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY

SAN JOSE 3001

AMEMBASSY TEGUCIGALPA

LIMITED OFFICIAL USE SECTION 1 OF 2 SAN SALVADOR 1681

E.O. 11652 - N/A

TAGS: EFIN, EAID, VE, ES

SUBJECT: VENEZUELAN OIL SCHEME

REF: A) EAL; B) SAN SALVADOR 0165 (NOTAL); C) SAN SALVADOR 1338;
D) STATE 094362

GUATEMALA ALSO FOR ROCAP

1. SUMMARY: THE FOLLOWING, BY SUBJECT TREATMENT, RESPONDS TO QUESTIONS IN EAL (PAGE 3) AND REFTEL D AND EXPANDS ON INFORMATION CONVEYED IN REFTEL C CONCERNING THE MECHANISMS OF THE VENEZUELAN PETROLEUM REBATE/LOAN PROGRAM WITH THE CENTRAL AMERICAN COUNTRIES. THE ANNUAL QUOTA DECREASE IN THE BILATERAL HAS BEEN LIBERALIZED FROM 16.66 PERCENT TO 10 PERCENT, AS A RESULT, WE CALCULATED THE VALUE OF THE SIX YEARS' REBATE/LOAN AT BE-
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PAGE 02 SAN SA 01681 01 OF 02 302237Z

TWEEN \$96.6 AND \$107.4 MILLION. THE GOES PLANS TO UTILIZE ALL

OF THIS AND INVEST AS MUCH AS 80 PERCENT TO 25 YEAR PROJECT
LOANS FOR OFFICIAL INVESTMENTS. WE CALCULATE EL SALVADOR'S
ELIGIBILITY
FOR THE 1975 IMF OIL FACILITY AT \$28.7 MILLION
AND WE BELIEVE IT CAN DEMONSTRATE BOTH NEED AND ABILITY TO
USE THE AMOUNT. END SUMMARY.

2. OIL SHIPMENT ALLOTMENT

5/QUOTA: AT LEAST AS CONCERNS EL SALVADOR, THE 11,400 BARREL PER DAY QUOTA PROVIDED IN ITS BILATERAL AGREEMENT IS DESCRIBED AS REPRESENTING THE AVERAGE DAILY EXPORT VOLUME TO EL SALVADOR IN 1974 FOR ITS DOMESTIC CONSUMPTION. THE FIRST AGREEMENT STATED THE QUOTA WOULD DIMINISH BY 16.66 PERCENT IN THE SECOND AND SUCCEEDING YEARS SO THAT THE BASE FOR REBATE WOULD BE ZERO WHEN THE SIX-YEAR PROGRAM ENDS IN 1980. THE LAST VENEZUELAN MISSION AGREED TO LIBERALIZE THIS TO A 10 PERCENT PER ANNUM DECREASE. THUS THE BASE FOR CALCULATION OF POTENTIAL REBATE WOULD BE AS FOLLOWS CHRONOLOGICALLY: 1975 TO 1980: 11400, 10260, 9120, 7980, 6840, AND 5700. WE HAVE REPORTED THAT THE CURRENTLY PROGRESSING CERRON GRANDE HYDROELECTRIC AND THE GEOTHERMAL PROJECT SHOULD REDUCE BY 1976 AND PROGRESSIVELY THEREAFTER THE NEED FOR FOSSIL-FUEL ELECTRICITY GENERATION, A PRODUCTION WHICH CURRENTLY ACCOUNTS FOR APPROXIMATELY ONE-THIRD OF PETROLEUM IMPORTS. THE CENTRAL RESERVE BANK (BCR), IN ITS PROJECTION OF VENEZUELAN REBATES, HAS TAKEN THIS AND MEDIUM-TERM PRICE ELASTICITY INTO ACCOUNT AND HAS REDUCED THE QUOTA BASE FURTHER, WHICH RESULTS IN A MUCH LOWER SIX-YEAR AGGREGATE REBATE THAN WE AND THE CENTRAL PLANNING OFFICE (CONAPLAN) CALCULATE. WHILE WE AGREE THAT THESE PROJECTS WILL BRING WELCOMED RELIEF TO THE OIL IMPORT BILL, WE, CONAPLAN, AND THE ESSO CENTRAL AMERICAN OFFICE BELIEVE OTHER NEW DEMANDS AND SECULAR DEMAND GROWTH WILL NOT REDUCE THE IMPORTS FOR DOMESTIC NEEDS BELOW THE 1974 LEVEL. IN FACT, ESSO/SHELL PLAN FOR A MODEST REFINERY EXPANSION AROUND 1979. FURTHER, OUR CONAPLAN CONTACT DOES NOT BELIEVE THE VENEZUELAN AGREEMENT CONTEMPLATES A REDUCTION IN THE QUOTA BASE APART FROM THE ANNUAL 10 PERCENT DECLINE, REGARDLESS OF WHAT HAPPENS TO DEMAND.

3. SIX YEAR LOAN TREATMENT: THE INITIAL SIX YEAR LOAN IS
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PAGE 03 SAN SA 01681 01 OF 02 302237Z

SUBJECT TO EIGHT (8) PERCENT ANNUAL INTEREST PAYMENTS (50/50 DOLLARS/BOLIVARES) ON SIX MONTH INTERVALS FROM DEBT CREATION. THE ENTIRE LOAN FALLS DUE IN A LUMP SUM, AGAIN PAYABLE 50/50 DOLLARS/BOLIVARES, IN SIX YEARS. THUS BEGINNING ON OR ABOUT MARCH 31, 1981, AND EACH QUARTER THEREAFTER SIX YEAR LOANS WOULD FALL DUE.

4. 25 YEAR PROJECT LOANS: THE PROCEDURE FOR CONVERSION OF THE

SIX YEAR LOAN TO A 25 YEAR PROJECT LOAN HAS BEEN DESCRIBED AS FOLLOWS: 1) AS STATED IN PARA 3, INTEREST WOULD BE PAID UNTIL SUCH TIME AS THE CONVERSION IS MADE; 2) UPON APPROVAL BY THE VENFUND THE AUTHORIZED GOES AGENCY (CONAPLAN, BUT NOT YET OFFICIALLY DESIGNATED) WOULD BECOME THE RESPONSIBLE AGENCY FOR THE NEW DEBT AND IT IS TO CONAPLAN THAT GOES AND PRIVATE APPLICATIONS FOR THE 25 YEAR FUNDS WILL BE DIRECTED; 3) WHEN THE LOAN IS APPROVED THE EQUIVALENT AMOUNT OF SIX YEAR FUNDS WILL BE PREPAID TO THE VENFUND AND FROM THE DATE OF THE NEW OBLIGATION THERE WILL BE A SIX YEAR GRACE PERIOD DURING WHICH ONLY THE

EIGHT (8) PERCENT INTEREST WILL BE REQUIRED; THE LOAN WILL THEN BE AMORTIZED OVER THE REMAINING 19 YEARS. INTEREST AND AMORTIZATION WILL BE 50/50 DOLLARS/BOLIVARES. THE PROCEDURE FOR APPROVAL OF 25-YEAR LOAN APPLICATIONS WILL BE SIMILAR TO THAT USED BY IFI'S. A FORMAL APPLICATION WITH PERTINENT SUPPORTING DOCUMENTATION WILL BE SUBMITTED TO THE VENFUND; REQUESTS FOR FURTHER INFORMATION WILL BE MET, ETC. AND A DECISION WILL BE MADE BY THE VENFUND. OF COURSE CONAPLAN WILL VET THE PROJECT FIRST AS ACCEPTABLE TO THE GOES. NO RESIDENT VENFUND STAFF IS CONTEMPLATED BUT VENEZUELAN MISSIONS ARE EXPECTED. ALTHOUGH THE BILATERAL AGREEMENT SPECIFIES PROJECTS APPROVED BY IFI AND OTHER FIRST CLASS LENDERS AS ELIGIBLE FOR THE 25-YEAR CONVERSION, IT IS BELIEVED THAT THE VENFUND WILL WANT TO EVALUATE APPLICATIONS FOR SUPPLEMENTARY FINANCING EVEN FOR THOSE PROJECTS.

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PAGE 01 SAN SA 01681 02 OF 02 302225Z

63

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INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 FRB-03 AGR-05 /090 W

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R 302104Z APR 75

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 7984

INFO AMEMBASSY CARACAS
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AMEMBASSY SAN JOSE
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LIMITED OFFICIAL USE SECTION 2 OF 2 SAN SALVADOR 1681

5. USE OF THE REBATE: OUR SOURCES BELIEVE THAT ALL OF THE REBATE UNDER SIX YEAR PROVISIONS WILL BE UTILIZED SINCE, AS REPORTED IN PARA 1, REFTEL C, THERE ARE VIRTUALLY NO LIMITATIONS ON ITS USE. ON THE OTHER HAND, THE ONLY OFFICIAL ESTIMATE WE HAVE ON THE PERCENTAGE OF THE TOTAL REBATE WHICH WILL BE CONVERTED TO 25-YEAR PROJECT LOANS IS 80 PERCENT, AND THIS CONSIDERS ONLY OFFICIAL USE. DEPENDING UPON INTEREST AND QUALIFICATION OF PRIVATE INVESTORS FOR THE FUNDS THIS REMAINING 20 PERCENT WOULD BE AVAILABLE AND CONCEIVABLY ALL COULD BE CONVERTED. AS REPORTED, TWO PROJECTS ALREADY TENTATIVELY APPROVED BY THE VENFUND FOR CONVERSION WOULD USE ALMOST ALL OF THE ANTICIPATED 1975 REBATE.

6. REBATE ESTIMATES 1975-1980: THREE CALCULATIONS FOLLOW. THE FIRST (A) AND SECOND (B) ASSUME THE DIMINISHING QUOTA BASE GIVEN IN PARA 1; THE THIRD PROJECTION, "C", IS THAT OF THE BCR AND ASSUMES THE LOWER QUOTA AS PREVIOUSLY DESCRIBED.
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PAGE 02 SAN SA 01681 02 OF 02 302225Z

"A" ASSUMES A PER BARREL REBATE OF \$5.16 (I.E. FOB VENEZUELA CRUDE PRICE OF \$11.16) THROUGHOUT THE SIX YEARS. PROJECTION "B" USED \$5.16 FOR 1975 AND A FIVE (5) PERCENT ANNUAL CUMULATIVE PRICE INCREASE THEREAFTER. TO OUR KNOWLEDGE VENEZUELA HAS NOT PROVIDED THE GOES ANY PRICE PROJECTIONS.

A; B; C(MILLIONS)

1975: 21,470,760; 21,470,760; 16.6;
1976: 19,323,684; 20,297,358; 13.9;
1977: 17,176,608; 18,907,584; 11.1;
1978: 15,029,532; 17,388,819; 8.3;
1979: 12,882,456; 15,653,682; 6.5;
1980: 10,735,380; 13,689,690; 2.8;

TOTAL: 96,618,411; 107,407,893; 59.2;

WE FAVOR PROJECTION "B", WITH THE FIVE PERCENT PRICE INCREASE. THE CREDIBILITY OF THE BCR PROJECTION BEGINS WITH 1975, WHERE THE ACTUAL FIRST QUARTER REBATE OF SOME \$6 MILLION QUESTIONS THE VALIDITY OF A FULL YEAR REBATE OF \$16.6 MILLION.

7. SALVADORAN NEED FOR 1975 IMF OIL FACILITY: ON THE BASIS OF REFTEL D AND DESCRIPTION OF THE FACILITY IN THE "IMF SURVEY" OF APRIL 14, WE CALCULATE E SALVADOR'S ELIGIBILITY AT \$28.7 MILLION, WHICH IS 85 PERCENT OF THE PRODUCT OF \$7.50 TIMES 4.5 MILLION BARRELS (ROUGHLY THE SAME IMPORTED IN 1972 AND 1973). (THE \$28.7 MILLION IS CONSIDERABLY LOWER THAN THE 125 PERCENT OF IMF KUOTA, OR \$54 MILLION.) WE BELIEVE EL SALVADOR CAN DEMONSTRATE BOTH NEED AND ABILITY TO USE THE AMOUNT OF THE 1975 OIL FACILITY FOR WHICH IT IS ELIGIBLE. REFTEL B CONVEYED THE PROJECTED BALANCE OF PAYMENTS FOR 1975 AND SHOWED A BASIC BALANCE DEFICIT OF \$17.2 MILLION. BUT ABOVE THE LINE IT PROJECTED NET PRIVATE INFLOW OF \$14 MILLION. THUS ONE COULD JUSTIFIABLY ADD THE TWO AND THE SUM, \$31.2 MILLION, EXCEEDS THE CALCULATED IMF POTENTIAL ELIGIBILITY. WE ARE TOLD THE BALANCE OF PAYMENTS PROJECTION CONTAINED IN REFTEL B IS ESSENTIALLY THAT WHICH CONAPLAN HAS GIVEN INTERNATIONAL AGENCIES. WE HAVE NO EXTERNAL TRANSACTIONS DATA FOR 1975 APART FROM FRISZTQUARTER NET INTERNATIONAL RESERVE (NIR) VARIATIONS. WE SUSPECT THAT IMPORTS MAY BE LOWER, WHEN SEASONALLY ADJUSTED, THAN PROJECTED. BUT ON THE OTHER HAND OUR THEN SEEMINGLY LOW LIMITED OFFICIAL USE

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PAGE 03 SAN SA 01681 02 OF 02 302225Z

COFFEE PRICE ASSUMPTION OF \$55 CWT FOB EL SALVADOR HAS TURNED SOUR AND OUR EXPORT RECEIPTS PROJECTION WILL LIKEWISE BE OVERSTATED, SO THE TWO MOVEMENTS MAY BE MUTUALLY COMPENSATORY. PERHAPS MORE SIGNIFICANT IS OUR VIEW THAT A SHORTFALL WILL OCCUR IN THE PROJECT OFFICIAL (DAC) NET INFLOW OF \$124 MILLION, REPORTED REFTEL B, A SHORTFALL WHICH WOULD INCREASE THE BASIC BALANCE DEFICIT. REFTEL C REPORTED THE NIR POSITION OF THE BCR THROUGH END-FEBRUARY. CONTRARY TO THE REPORTED SUSPICION THE BANK DID NOT PREPAY LOCF-TERM FOREIGN DEBT IN MARCH AS IT DID IN FEBRUARY AND THE TRADITIONALLY SEASON HIGH EXPORTS BOOSTER THE NIR'S TO \$94.7 MILLION. THE LONG-TERM EXTERNAL DEBT REMAINED VIRTUALLY THE SAME AS END-FEBRUARY, \$91.1 MILLION, DOWN FROM \$111.6 END-JANUARY. WE ARE INFORMED THAT THE NIR WILL RISE AGAIN IN APRIL, A MOVEMENT WHICH ACCORDS WITH SECULAR SEASONAL TRENDS HERE. BUT THE BCR STILL PLANS TO PREPAY A SIGNIFICANT AMOUNT OF ITS COMMERCIAL EXTERNAL DEBT (OVER \$75 MILLION WAS INCURRED IN 1974), AN ACTION DESIGNED NOT ONLY TO SHED EXPENSIVE DEBT BUT TO ATTAIN NIR QUALIFICATION FOR THE IMF OIL FACILITY. ALTHOUGH BCR PRESIDENT SUAREZ NOW RECOGNIZES THAT THE FACILITY'S "SUCDWDY ACCOUNT", WITH FUNDS PERHAPS AS LOW AS THREE (3) PERCENT INTEREST, IS JUST A PROPOSAL, HE VIEWS IT AS VIRTUALLY CERTAIN. WE ARE NOT ABLE TO COMMENT ON WHETHER OR NOT THE IMF WOULD BE SATISFIED WITH SALVADORAN B/P POLICIES, BUT WE WOULD THINK THEY WOULD BE NO WORSE AND POSSIBLY A BIT BETTER THAN THOSE OF OTHER APPLICANTS TO THE FACILITY.

8. THE BCR EXPECTS TO COMPLETE WITHIN THE NEXT WEEK OR SO A

REVISIONS OF ITS 1975 BALANCE OF PAYMENTS PROJECTIONS. IN THE
EVENT WE OBTAIN THIS REVISION WE WILL REPORT SIGNIFICANT CHANGES.
WE ARE STILL INFORMED, AS REPORTED IN REFTEL C, THAT THIS REVI-
SION WILL SHOW A GAP WHICH ARGUES FOR THE IMF OIL FACILITY.
AN IMF STAFF ECONOMIST HAS BEEN INVOLVED IN THIS AND BROADER
ECONOMIC STUDIES AT THE BCR AND WAS ASSUMING THE CHARACTER
OF A PERMANENT REPRESENTATIVE. BUT WE HAVE LEARNED THAT HE
IS VIEWED, AT LEAST BY PRESIDENT SUAREZ, AS A "SNOOPER" AND
HIS RECALL WILL BE OR HAS BEEN REQUESTED.
CAMPBELL

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Message Attributes

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